



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS
ADMINISTRATION WITH IT (ACCOUNTING OPTION)
4TH YEAR 2ND SEMESTER 2024/2025 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: BAB 1402

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING II.

EXAM VENUE: LAB 6

DATE: 16/04/2025

EXAM SESSION: 9.00 – 11.00 AM

DURATION: 2 HOURS

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Show ALL your workings and be as NEAT as possible.**
- 3. Candidates are advised not to write on the question paper**
- 4. Marks allocated to each question are shown at the end of the question.**

QUESTION ONE

- a) Distinguish between goodwill and capital reserve in relation to group accounting (4 marks)
- b) Describe the treatment of the following in the context of consolidated statement of financial position:
- i) Unrealized profit. (3 marks)
 - ii) Excess depreciation (3 marks)
 - i) Pre- acquisition reserves or profits (2 marks)
- c) Discuss the following pre – offer defence mechanisms employed by managers to resist a hostile takeover in mergers and acquisitions.
- i) Golden Parachute (2 marks)
 - ii) Poison Put (2 marks)
- d) Kiu holdings Ltd acquired the 75% shareholding of Maji subsidiaries Ltd on 31/12/2023 for Kshs 80,000,000 when the revenue reserves of Maji. stood at Ksh 800,000. The respective balance sheets as on first date of consolidation were as follows;

	Kiu holdings Ltd	Maji. Subsidiary Ltd
	kshs "000"	Kshs "000"
Fixed assets	36,000	27,000
Investment in (S)	80,000	
Current assets		
Stock	20,000	7,000
Debtors	18,000	8,000
Bank	2,000	1,000
	156,000	43,000
Financed by		
Share capital	83,000	25,000
Reserves	38,000	10,000
	121,000	35,000
Liabilities	35,000	8,000
	156,000	43,000

The fair value of assets is equal to the book values.

Required:

- i) Determine the goodwill arising on consolidation. (4 marks)
- ii) Minority interest/ Non controlling interest as at 31/12/2023 (4 marks)

- e) Explain the significance of diluted earnings per share (4 marks)
- f) Clearly but concisely explain why the trend of earnings per share may be different from the trend of the reported profit. (2 marks)

QUESTION TWO.

Sun limited acquired 85% of the ordinary shareholders equity of Set on 1/1/2024. On the same day, the revenue reserves of Set Ltd stood at sh 1,500,000. Sun also bought 25% of Set preference shares and 40% of its debentures. The price paid for the entire investment in Set was Ksh 8,000,000. The balance sheet of Sun and Set as of 31/12/2024 were as follows.

	Sun. Ltd Kshs	Set. Ltd Kshs
Fixed assets	12,000,000	10,000,000
Investment in Set Ltd.	8,000,000	
	<hr/> 20,000,000	<hr/> 10,000,000
Stock	3,000,000	2,000,000
Debtors	4,000,000	3,000,000
Cash & bank	1,500,000	1,500,000
	<hr/> 8,500,000	<hr/> 6,500,000
Creditors	2,500,000	3,000,000
tax	1,000,000	500,000
Dividend	2,000,000	1,000,000
	<hr/> 5,500,000	<hr/> 4,500,000
	<hr/> 23,000,000	<hr/> 12,000,000
Financed by:		
Ordinary shares	8,000,000	3,000,000
Preference shares	1,000,000	1,000,000
Debentures	1,500,000	2,000,000
Share premium	1,500,000	500,000
Retained profits	11,000,000	5,500,000
	<hr/> 23,000,000	<hr/> 12,000,000

Additional information:

- Since its acquisition, Set Ltd. has not issued any shares.
- Sun does not accrue any dividend receivable from Set.
- Dividend to preference shares had been paid during the year.
- Goodwill was tested for impairment and found to be worth as follows;

31/12/2023	1,520,000
31/12/2024	1,140,000
- Included in the debtors of Sun is an amount of sh 600,000 receivable from Set. The same has been accounted for in Set Ltd. as creditors.
- Included in the stock of Set Ltd are sh 1,500,000 worth of goods acquired from Sun Ltd. Sun Ltd sells all stock and any other commodities to Set Ltd at cost plus 25% mark up.

7. Included in fixed assets of Set Ltd is an item of fixed assets acquired from Sun Ltd at a cost of sh 3,000,000. Set Ltd depreciates fixed assets at 20% on straight line with a full charge in the year of acquisition.

Required: Draw Sun Group consolidated Statement of financial position as at 31 December 2024. (20 marks)

QUESTION THREE

- a) On 1 July 2024, Ali Ltd. acquired 70,000 of the 100,000 shares in Baba Ltd., its only subsidiary. The draft statements of profit or loss and other comprehensive income of both companies at 31 December 2024 are as follows:

	Ali Ltd sh "000"	Baba Ltd sh "000"
Revenue	43,000	26,000
Cost of sales	(28,000)	(18,000)
Gross profit	15,000	8,000
Other income - Dividend received from Baba Ltd	2,000	
Distribution costs	(2,000)	(800)
Administration costs	(4,000)	(2,200)
Finance costs	(500)	(300)
Profit before tax	10,500	4,700
Income tax expense	(1,400)	(900)
Profit for the year	9,100	3,800
Other comprehensive income		
Gain on property revaluation		2,000
investment in equity instrument	200	
Total comprehensive income for the year	9,300	5,800

Additional information:

1. At the date of acquisition the fair values of Baba's assets were equal to their carrying amounts with the exception of a building which had a fair Sh.1 million in excess of its carrying amount.
2. At the date of acquisition the building had a remaining useful life of 20 years. Buildings depreciation is charged to administrative expenses.
3. The building was revalued again at 31 December 2024 and its fair value had increased by an additional Sh.1 million.

4. Sales from Ali to Baba were Sh.6 million during the post-acquisition period. All of these goods are still held in inventory by Baba Ltd. Ali Ltd. marks up all sales by 20%.
5. Despite the property revaluation, Ali Ltd. has concluded that goodwill in Baba Ltd, has been impaired by sh.500,000.
6. It is Ali Ltd's policy to value the non-controlling interest at full (fair) value.
7. Income and expenses can be assumed to have arisen evenly throughout the year

Required;-

Prepare the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2024. (16 marks)

- b) Explain the term "accounting theory" and indicate why it is important in the practice of accounting. (4 marks)

QUESTION FOUR

- a) Explain why accounting standards on their own are not a complete regulatory framework. (3 marks)
- b) Many corporate boards have now agreed on the need to take responsibility for any potential or actual social impact caused by their companies' activities. This is done through a social responsibility report.

Required:

- i) Explain three benefits that would accrue to a company from the reporting of the company's social responsibility activities. (3 marks)
- ii) Comparing conventional financial accounting reporting with social responsibility reporting, list and explain three challenges peculiar to social responsibility accounting. (6 marks)
- c) Assume there are 20 firms in the industry, each with 5% market share. Also assume that firms 19 and 20 decide to merge. Calculate the pre – merger and post – merger **Herfindahl – Hirschman Index (HHI)** and discuss the likelihood of an antitrust challenge of the merger. (5 marks)
- d) Explain what is meant by merger accounting and how it differs from acquisition (3 marks)

QUESTION FIVE.

Ushindi Company Ltd was incorporated in 2010 with an issued share capital of 2,500,000 ordinary shares of sh 10 each and 1,000,000 8% cumulative participating preference shares of sh 10 each. All the shares were paid for in full.

In 2014, the company issued 2,500 10% debentures of sh. 1,000 each. The terms of issues stipulate that each debenture is convertible into 75 ordinary shares of sh 10 each on 3 December 2016 and those not converted will be redeemed at par on 31 December 2018.

On 1 March 2018, the company granted its directors options to take up 500,000 ordinary shares at a price of sh.12 per share.

On 1 April 2019, the ordinary shares were split into shares of sh.2.50 each and on 1 December 2019 a further 3,000,000 ordinary shares were issued at fair value to satisfy the purchase of certain business rights acquired.

On 2 December 2019, 200,000 of the above options were taken up when the fair value of the shares was sh.6 each. The average fair value of the shares during the year was sh.5 each. The following information has been extracted from the consolidated income statement for the years ended 31 March 2023 and 31 March 2024.

	2024	2023
	sh "000"	sh "000"
Net operating income	19,800	18,410
income from investments	420	360
Net income before taxation and extraordinary items	20,220	18,770
Taxation	(7,630)	(6,920)
Net income after taxation	12,590	11,850
Less: Minority interest	(1,270)	(1,440)
Profit attributable to members of the group	11,320	10,410
Extraordinary items	(2,000)	(1,500)
Profit after tax and extraordinary items	9,320	8,910
Dividends (Note 1)	(4,000)	(3,200)
Retained profits for the year	5,320	5,710
Retained profit b/d	18,530	12,820
Retained profit c/d	23,850	18,530
NOTE		
Dividends paid 31 March:		
On ordinary shares	3,200	2,400
On preference shares	800	800
	4,000	3,200

Required:

- a) Calculate the basic earnings per share figure to be disclosed in the published accounts of Ushindi company Ltd for the years ended 31 March 2023 and 31 March 2024.
- b) Calculate the diluted earnings per share figure to be disclosed in the published accounts of Ushindi company Ltd for the year ended 31 March 2024. Assume a tax rate of 32.5%. (20 marks)